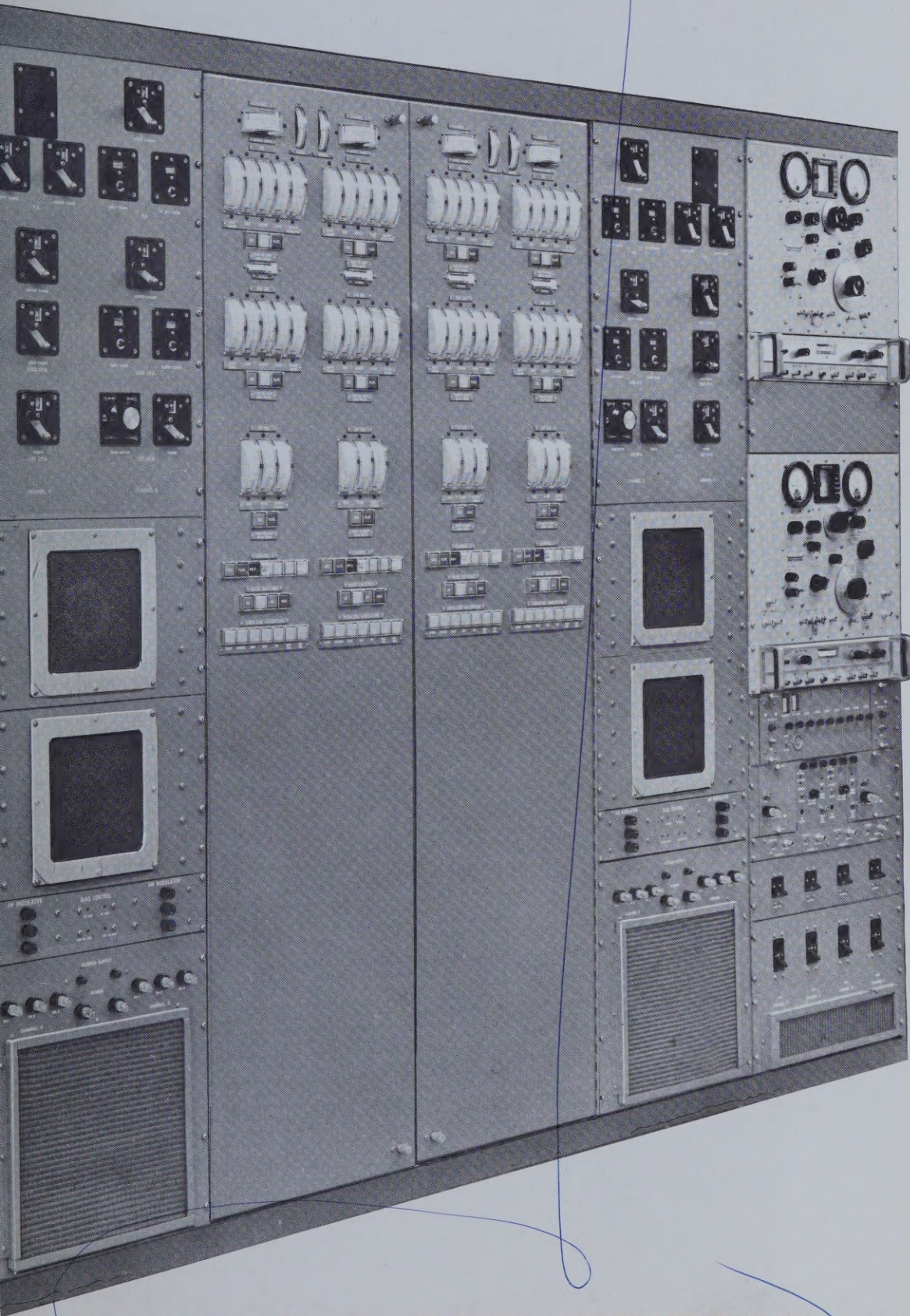


AR22

ANNUAL REPORT

1968



THE TECHNICAL MATERIEL CORPORATION AND SUBSIDIARIES



DIRECTORS

RAY H. dePASQUALE

JOHN E. GALIONE

ERNEST A. MATSON JR.

DOUGLAS V. CARROLL

GEORGE W. JENNINGS

WILLIAM L. DEANS

HAROLD J. MORSE

BUSINESS HIGHLIGHTS

	FISCAL YEAR	
	1968	1967
Net Sales	\$ 17,408,523	\$ 24,575,859
Net income (loss)	(603,107)	619,706
Current Assets	12,068,690	12,887,219
Current Liabilities	4,592,574	4,818,330
Working Capital	7,476,116	8,068,889
Current Ratio	2.6 to 1	2.7 to 1
Property, Plant and Equipment Net	4,315,005	3,905,631
Stockholders' Equity	10,446,690	11,007,753
Earnings (loss) per Share	(0.22)	0.23
Book Value per Share	3.89	4.11
Number of Stockholders	5,182	4,810
Common Stock Outstanding	2,686,805	2,679,704 *

*Restated

OFFICERS

Ray H. dePasquale, President
 Ernest A. Matson, Jr., Vice President
 John E. Galione, Vice President
 and Secretary
 William L. Deans, Vice President
 David A. Hillmann, Vice President
 Conrad Gebhardt, Vice President —
 Special Projects
 Edwardean A. Tucker, Ass't. Vice President
 Robert G. DeBease, Treasurer
 Todd K. Beaver, Controller
 Ruth S. Taylor, Assistant Secretary

Douglas V. Carroll, President
 TMC (Canada) Ltd.
 John C. Adair, Vice President
 TMC (Canada) Ltd.
 William C. Shalag, Exec. Vice President
 The TMC Systems and Power Corp.
 Billy D. Pritchard, Vice President
 The TMC Systems and Power Corp.
 Guedon E. Zakotnik, Vice President
 The TMC Systems and Power Corp.

SOURCE & DISPOSITION OF WORKING CAPITAL

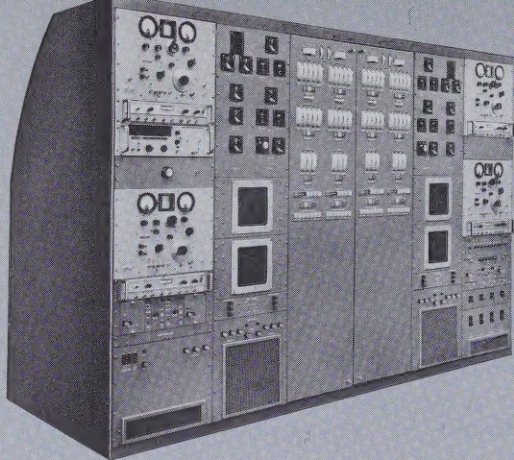
THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF WORKING CAPITAL

Years ended September 30, 1968 and 1967

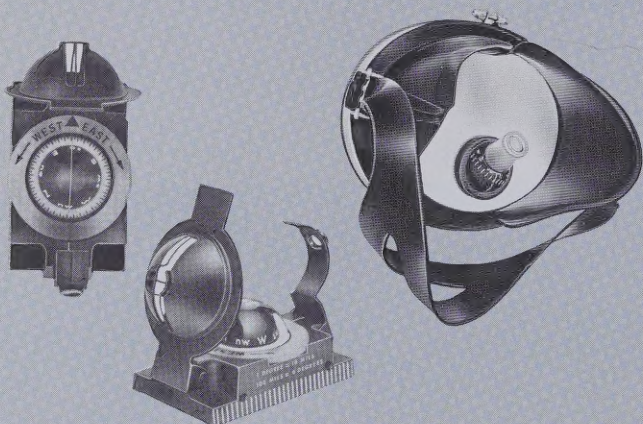
	1968	1967
Source:		
Operations:		
Net income (loss)	\$ (603,107)	\$ 619,706
Depreciation and amortization of property, plant and equipment	383,070	335,457
Amortization and write-offs of deferred new product development	565,383	536,686
Deferred income taxes	(200,000)	131,000
Other	11,197	(1,261)
	<u>156,543</u>	<u>1,621,588</u>
New mortgage and note borrowings	583,273	992,506
Proceeds from sales of property, plant and equipment	59,123	241,982
Exercise of stock options	58,857	18,344
	<u>857,796</u>	<u>2,874,420</u>
Disposition:		
Purchase of Telecom Realty Corp.	663,000	—
Other purchases of property, plant and equipment	240,725	1,133,541
New product development expenditures	414,450	329,952
Moving costs for Virginia subsidiary	—	57,165
Repayment of mortgages and notes payable	115,581	205,661
Cash paid for fractional shares resulting from stock dividends	16,813	10,323
	<u>1,450,569</u>	<u>1,736,642</u>
Increase (decrease) in working capital	<u>\$ (592,773)</u>	<u>\$ 1,137,778</u>

See Accompanying Notes



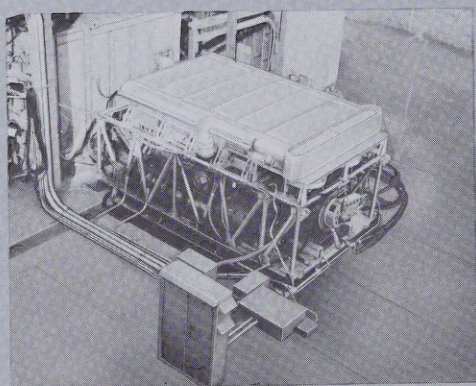
COVER PHOTO

This television transmitter, recently installed by our Avionics group, provides four channels of high power TV and VHF to match any World standard.



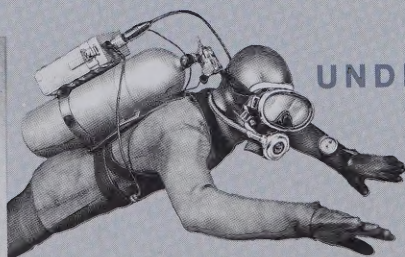
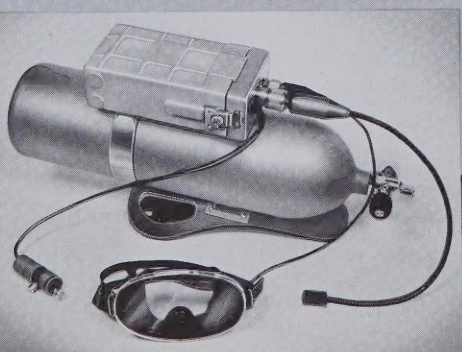
NEW COMPASS

This new compass points North regardless of the position in which it is held. Placed in the face mask of a Scuba diver, it permits determination of direction even in muddy water.



UNDERWATER POWER

Portent of things to come. Allied to our Project PULL, this closed Brayton-Cycle system is the ideal method of providing power on the ocean floor. Nuclear fired, it would provide power with no exhaust other than heat which would be easily dissipated in water.



UNDERWATER UNIT

Our underwater signalling system, shown here in prototype, will be offered commercially in our new fiscal year.

a message

from the president....



Ray H. dePasquale

Your Corporation was adversely affected by a number of factors in the past fiscal year. Exports were depressed by the unsettled international monetary conditions during the period. U. S. Government research funds were severely cut back, and Government procurement for most products other than wartime necessities was stretched out or deferred. These conditions made for an intensely competitive climate in our industry. Your management elected to take the conservative position of reducing expenses until the volume of its business increases.

From a management and supervisory point of view, our operations have been streamlined and consolidated, so that any resumption of reasonably normal conditions should result in a return without delay to our previous margin of profit.

The impact of micro-electronics and integrated circuits has been substantial in our field, making equipment more compact and reliable but at the same time making many former tube type equipments obsolete. Fortunately these developments were foreseen, with the result that our current models are completely modern in this respect. Our new multicoupler as developed by TMC (Canada) and our new MMX exciter series are excellent examples of the advantages of "solid state." Your corporation continues among the top suppliers of completely integrated radio communications facilities.

AVIONICS

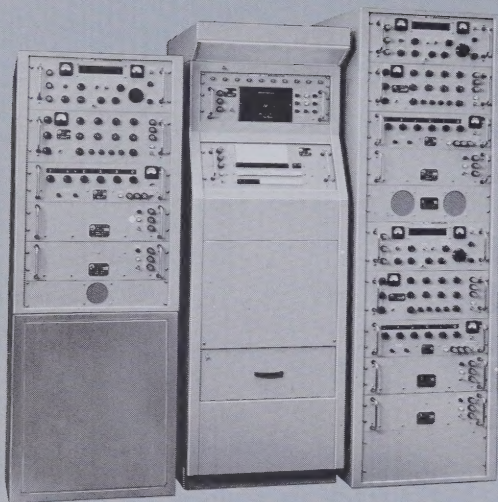
Avionics contributed in large measure to our sales this past fiscal year. We are in the final stages of equipping the last of four aircraft for broadcast, television, high frequency and very high frequency communication. Other aircraft are in the planning stages both by our own and foreign governments. Our experience in this field continues to increase to our advantage.

Airplanes equipped by us can communicate to submarines, and during the last year we have equipped many research ships such as the "Glomar Challenger" for Global Marine, Inc., and the SS Argo and SS Washington for the Scripps Institute as well as regular commercial freighters as produced by Avondale Shipyards. The upcoming Apollo launch will be monitored by ships using TMC automatic transmitters and receivers.

EXPORT BUSINESS

Our products attract considerable attention in the Export field, although to some extent world monetary conditions con-

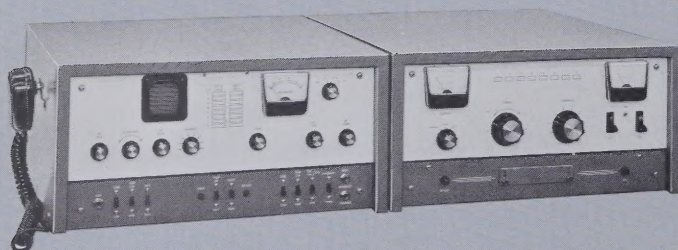
continued



REMOTE CONTROL RECEIVER SYSTEM

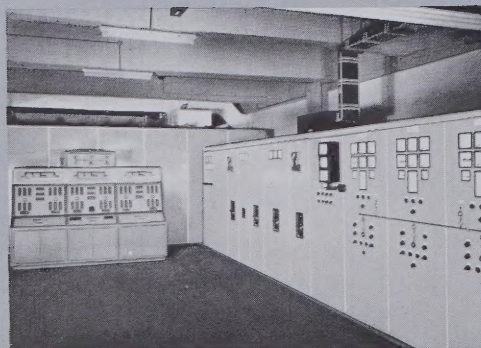
TMC Model DDR-10. Over two years in development, this highly sophisticated High Frequency receiver is in the final stages of evaluation and test and may well become the standard for our Armed Services. The unit on the left permits remote switching of up to fifty receivers.

"COMMERCIAL" TRANSCEIVER



Your company has often been referred to as the "Cadillac" manufacturer of transmitters. Here is our new compact transceiver, offered commercially for the first time this coming year. In two small desk type cabinets, it provides up to 1000 watts output.

NO-BREAK POWER AT ALITALIA



"No-break" power installation for Alitalia Airlines. Many prominent firms use this type of TMC power.

tinue to delay prompt consummation of contracts. TMC Systems, AG, our Swiss subsidiary under the direction of Mr. Harry Hargreaves, continues to cover the Near East, NATO and SHAPE countries and TMC Systems (W.H.), Inc., under the direction of Mr. Dave Hillmann, continues to sell our products to the markets of Central and South America. The balance of our export activities are accomplished by distributors under control of our Headquarters staff.

CANADA

Our Canadian subsidiary, under President Douglas V. Carroll, contributed a net profit for the year. It continues to be engaged in engineering and production of electronic communication equipment for Canadian and export markets, particularly for the commonwealth.

CRYSTAL FILTERS

Progress at TMC Systems (Arizona), where our crystal filters are manufactured, is evidenced by a profitable 4th Quarter after a long period of investment in a very difficult field. The products now produced by this subsidiary are acknowledged to be among the finest in the industry.

TRAINING SCHOOL

Our training school operated on a profitable basis this past year and included cadres scheduled for Project "Deep Freeze" in the Antarctic as well as those intended for employment as crews for operational aircraft. Technicians from many countries speaking many different languages were trained by us in the operation of modern apparatus.

TMC SYSTEMS AND POWER CORP.

Discussions have been held relative to the sale of the largest portion of the assets of this wholly owned subsidiary, which is located in Springfield, Virginia. The contemplated sale would encompass about ten percent of the total assets of the consolidated Corporation. In fiscal 1968, operations of this subsidiary showed a net loss. If consummated, the sale would result in an enhanced liquid financial position for your Corporation, because payments would be made in cash and notes maturing in six months and one year. At this time no agreement has been reached.

DIESEL ENGINE

The development of our new air-cooled Diesel Engine has proven to be much more difficult than we anticipated. However, the first 12 engines and the first round of production tooling are in process.

RESEARCH AND DEVELOPMENT GROUP

Our Research and Development Group, located in the Springfield, Virginia plant of TMC Systems and Power Corp., will continue their work for The Technical Materiel Corporation.

continued

OCEANOGRAPHY

In Oceanography we are active under, over and on the water. We believe that our new compass and underwater signalling system, in addition to our work in making possible an underwater habitat, will result in future profits.

FINANCES

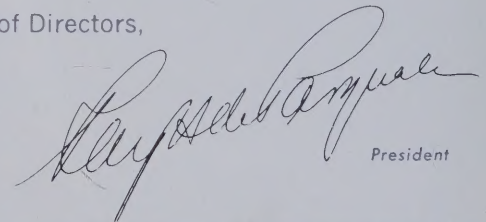
At the fiscal year end, the financial position of your Corporation continued to be strong with more than adequate credit facilities. No financing is contemplated at the present time. The current financial ratio is 2.6 current assets to 1 current liabilities.

Mr. George C. Dixon has resigned his positions as Executive Vice President and Director to engage in consulting work. Mr. Todd Beaver has been promoted to the position of Controller succeeding Mr. Robert Morris. Messrs. Harold J. Morse and William L. Deans both of whom have been with the company for many years, were appointed Directors.

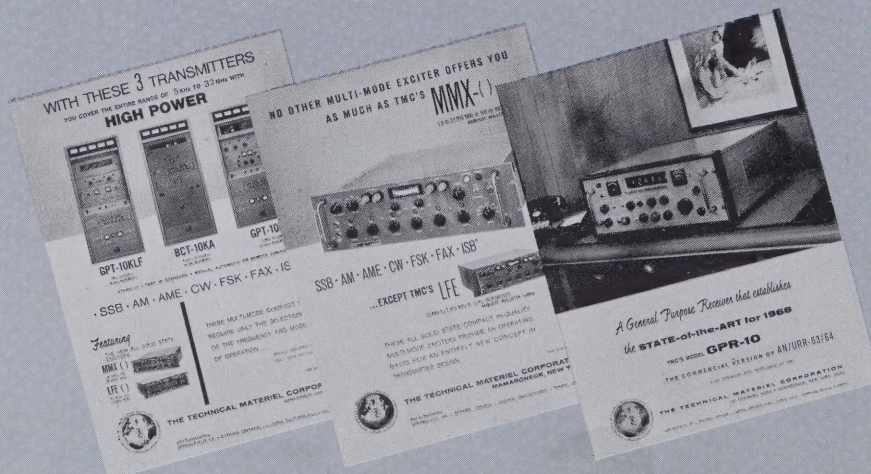
Our Marketing organization has been reorganized and an aggressive program of advertising and promotion has been undertaken. We believe we have increased the operating efficiency of your Corporation this past year and operations should improve further even under current adverse conditions. The new year could show a turnaround in our fortunes.

In today's corporate climate of mergers and acquisitions, this Corporation has been approached by several interested parties with such offers. When and if a proposal is received by your management which can strengthen the Corporation and benefit the shareholders, it will be promptly disclosed.

By Order of the Board of Directors,



President

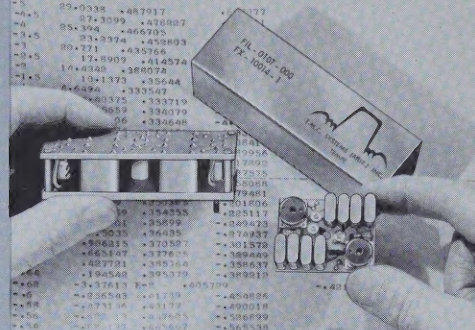


**TRADE MAGAZINE
ADVERTISEMENTS**

CRYSTAL FILTERS

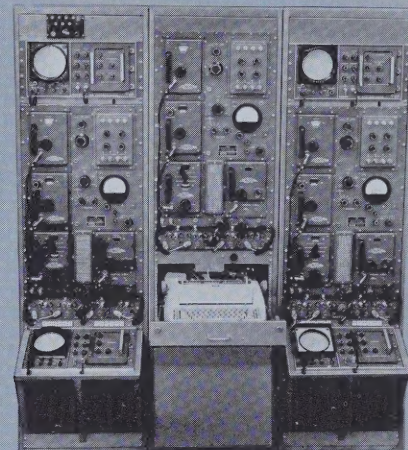
These crystal filters are becoming more and more important in the communications field. It is acknowledged that TMC Systems (Arizona) is pushing the "state of the art" in this area.

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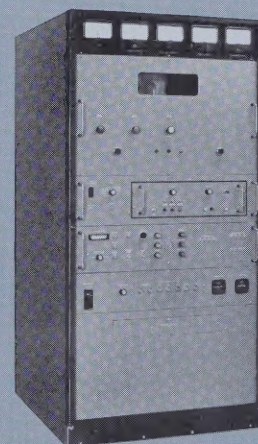
AVIONICS INSTALLATIONS

The degree of "know how" involved in this Avionics installation recently completed, illustrates the trend to greater complexity and performance.



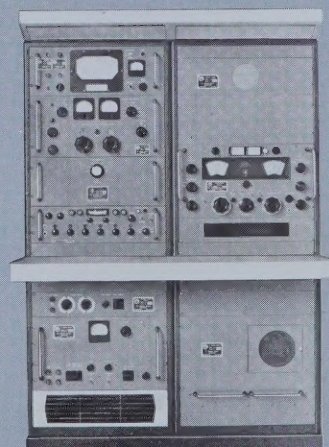
MARITIME 40 KW TRANSMITTERS

This remote controlled transmitter manufactured for I.T.T. World Communications delivers 40KW peak power on CW and MCW at their Amagansett station on three instantly selectable frequencies in the working marine medium frequency range.



SHIPBOARD INSTALLATIONS

This MAS shipment is installed on the SS ARGO and SS WASHINGTON of the Scripps Institute, providing complete send/receive facilities.



ASSETS



CONSOLIDATED BALANCE SHEET September 30, 1968 and 1967

ASSETS	1968	1967
Current assets:		
Cash	\$ 701,887	\$ 426,715
Accounts receivable — (\$1,247,354 in 1968 and \$2,328,639 in 1967 from the U. S. and foreign governments) (Note 7)	3,634,838	2,904,850
Income tax refunds receivable (Note 4)	231,613	75,842
Inventories, at the lower of cost or market, less progress payments of \$920,963 in 1968 and \$210,102 in 1967 (Note 2):		
Finished goods	1,234,313	824,332
Work in process	2,429,641	4,361,174
Raw materials	3,507,160	3,989,891
	<u>7,171,114</u>	<u>9,175,397</u>
Prepaid commissions and expenses	329,238	304,415
Total current assets	<u>12,068,690</u>	<u>12,887,219</u>
Property, plant and equipment, at cost (Note 1):		
Land	463,173	238,399
Buildings and building equipment	2,838,490	2,114,170
Machinery and equipment	2,251,737	2,175,768
Leasehold improvements	640,087	831,186
	<u>6,193,487</u>	<u>5,359,523</u>
Accumulated depreciation and amortization	<u>(1,878,482)</u>	<u>(1,453,892)</u>
	<u>4,315,005</u>	<u>3,905,631</u>
Other assets:		
Deferred new product development costs (Notes 3 and 4)	1,341,699	1,492,632
Property held for sale, etc.	403,057	362,096
	<u>1,744,756</u>	<u>1,854,728</u>
	<u>\$18,128,451</u>	<u>\$18,647,578</u>

See Accompanying Notes

THE TECHNICAL**MATERIEL****CORPORATION***and Subsidiaries***LIABILITIES****AND STOCKHOLDERS' EQUITY****CONSOLIDATED BALANCE SHEET**

September 30, 1968 and 1967

LIABILITIES AND STOCKHOLDERS' EQUITY	1968	1967
Current liabilities:		
Notes payable to banks	\$ 1,798,375	\$ 1,743,875
Advance payments from customers	144,109	267,255
Accounts payable	1,910,046	1,849,265
Accrued income taxes	216,413	386,368
Other accrued taxes and expenses	264,176	487,728
Current installments of mortgages and notes payable	259,455	83,839
Total current liabilities	4,592,574	4,818,330
Mortgages and notes payable — 6% to 7½% and due 1969-1992 (less installments due within one year)	2,286,187	1,818,495
Deferred income taxes (Note 4)	803,000	1,003,000
Stockholders' equity:		
Common stock, par value 12½¢ per share (Note 5):		
Authorized — 4,000,000 shares		
Outstanding — 1968 — 2,686,805 shares,		
1967 — 2,628,188 shares	335,851	328,524
Capital surplus (Note 6)	5,738,486	4,862,188
Earned surplus	4,372,353	5,817,041
	10,446,690	11,007,753
	\$18,128,451	\$18,647,578

See Accompanying Notes

The Board of Directors and Stockholders
The Technical Materiel Corporation

We have examined the accompanying consolidated balance sheet of The Technical Materiel Corporation and subsidiaries at September 30, 1968 and the related consolidated statement of operations and disposition of the consolidated statement of source and disposition of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm amounts due from the United States and foreign governments, as to which we satisfied ourselves by means of other auditing procedures.

In our opinion, the statements mentioned above present fairly the consolidated financial position of The Technical Materiel Corporation and subsidiaries at September 30, 1968 and the consolidated results of their operations and the source and disposition of their consolidated working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

December 19, 1968

Arthur Young & Company

AUDITORS' REPORT

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1968

Note 1:

Subsequent to September 30, 1968, the Company closed its Nyack plant. Property, plant and equipment shown in the consolidated balance sheet includes \$916,672 related to the land, buildings and building equipment at Nyack. No unusual expenses associated with the shutdown are anticipated.

On November 1, 1967, the Company acquired the corporate lessor of property leased to the Company until 1974 at a base annual rental of \$60,000. The corporate lessor was previously owned in part by the family of the Company's president. The purchase price of \$663,000 was determined on the basis of independent appraisals of the value of the property held by the corporate lessor and was paid in notes subsequently refinanced by the Company with a bank through a \$500,000, 6¾% mortgage due in 1987, the principal and interest of which is payable at the rate of \$46,000 per year.

Long term leases for other plants, chiefly expiring in 1977, require minimum annual rentals aggregating \$211,000.

Note 2:

Cost of inventories is determined principally on the basis of the average cost method and included applicable engineering overhead and general and administrative expenses of \$687,000 at September 30, 1968 and \$916,000 at September 30, 1967.

Note 3:

As of September 30, 1968 the Company has deferred new product development costs in a net amount of \$1,341,699 of which \$681,952 represents the cost of uncompleted projects. The ultimate value of these costs is dependent upon successful completion of these projects and future sales of the products being developed. In the opinion of management, these costs are fully recoverable. The Company has adopted the policy of amortizing the costs of each project by charges to earnings over the five years beginning with the first sale of the related product or writing them off when the anticipated profit on the sales of the related products will not allow for the recovery of the development cost.

Note 4:

The provision for income taxes consists of the following:

	1968	1967
Current income taxes (credits):		
Federal	\$ (80,000)	\$146,000
Foreign	(26,000)	151,000
State	16,000	10,000
	(90,000)	307,000
Deferred income taxes (credits):	(200,000)	131,000
	<u>\$(290,000)</u>	<u>\$438,000</u>

Foreign taxes relate to subsidiaries operating in Canada and Switzerland. For 1968 these subsidiaries had net aggregate sales of \$1,213,863 and net loss of \$138,386; net assets at September 30, 1968 were \$1,187,639.

Deferred income taxes at September 30, 1968 include \$697,000 related to deferred new product development costs deducted currently for income tax purposes, and \$240,000 related to accelerated tax depreciation, before reduction for available tax loss and investment credit carry-forwards of \$134,000.

Note 5:

At September 30, 1968, there were reserved under the Employee Stock Option Plan 19,715 shares of common stock against which there were no options outstanding. During the year 1968 no stock options were granted, options on 2,682 shares were cancelled or expired and options on 7,101 shares were exercised at \$8.29 per share. At September 30, 1967, 26,816 shares were reserved against which options to purchase 9,783 shares at \$8.29 per share were outstanding. The above shares and share prices have been adjusted to reflect stock dividends.

Note 6:

During the year capital surplus was increased as follows:	
Balance at beginning of year	\$4,862,188
Excess of market value over par value of 51,548 shares of common stock issued as a stock dividend on March 1, 1968	818,324
Excess of option price over par value of 7,069 shares of common stock issued under the Employee Stock Option Plan	57,974
Balance at end of year	<u>\$5,738,486</u>

Note 7:

Approximately three-quarters of the Company's 1968 business is subject to renegotiation. The Company believes 1968 will be settled without any refund. All years through 1967 have been cleared.

Notes receivable from a foreign government in the amount of \$309,000 have been discounted with recourse at banks in the United States. Accounts receivable of \$143,375 have been pledged to secure a note payable to a bank. The Company is contingently liable for the \$87,000 mortgage on a plant sold in prior years.



**THE TECHNICAL
MATERIEL
CORPORATION**
and Subsidiaries

OPERATIONS
AND EARNED SURPLUS

CONSOLIDATED STATEMENT OF OPERATIONS AND EARNED SURPLUS
Years ended September 30, 1968 and 1967

	1968	1967
Net sales	\$17,408,523	\$24,575,859
Cost of sales	12,993,470	16,159,238
Engineering and development expenses (Note 3)	1,376,805	1,670,587
Selling, general and administrative expenses	3,618,552	5,489,546
Interest expense	312,803	205,632
Other income	—	(6,850)
	<u>18,301,630</u>	<u>23,518,153</u>
Income (loss) before income taxes	(893,107)	1,057,706
Provision for income taxes (Note 4)	(290,000)	438,000
Net income (loss)	<u>(603,107)</u>	<u>619,706</u>
Earned surplus at beginning of year	5,817,041	5,789,753
	<u>5,213,934</u>	<u>6,409,459</u>
2% stock dividend:		
Cash paid for fractional shares	16,813	10,323
Earnings transferred to capital	824,768	582,095
	<u>841,581</u>	<u>592,418</u>
Earned surplus at end of year	<u>\$ 4,372,353</u>	<u>\$ 5,817,041</u>
Net income (loss) per share	<u>\$ (.22)</u>	<u>\$.23</u>

See Accompanying Notes

TRANSFER AGENT: Bankers Trust Company
485 Lexington Ave.
New York, N. Y. 10017

REGISTRAR: Irving Trust Co.
New York, N. Y.

CORPORATION COUNSEL: Harold J. Morse



**THE TECHNICAL
MATERIEL
CORPORATION**
and Subsidiaries

	1968	1967	1966
Net Sales	\$17,408,523	\$24,575,859	\$22,119,382
Provision for Taxes on Income	\$ (290,000)	\$ 438,000	\$ 308,000
Net Earnings (loss) for the Year	\$ (603,107)	\$ 619,706	\$ 376,621
Per Cent of Earnings to Sales	\$ (3.46%)	2.52%	1.70%
Current Assets	\$12,068,690	\$12,887,219	\$13,768,628
Current Liabilities	\$ 4,592,574	\$ 4,818,330	\$ 6,837,517
Current Ratio	2.6 to 1	2.7 to 1	2.0 to 1
Working Capital	\$ 7,476,116	\$ 8,068,889	\$ 6,931,111
Long-Term Liabilities	\$ 2,286,187	\$ 1,818,495	\$ 1,031,650
Property, Plant and Equipment (net)	\$ 4,315,005	\$ 3,905,631	\$ 3,203,425
Expenditures for Property, Plant and Equipment	\$ 903,725	\$ 1,133,541	\$ 852,955
Depreciation and Amortization	\$ 383,070	\$ 335,457	\$ 298,427
Square Feet of Building Space:			
Owned	\$ 169,900	130,900	118,600
Leased	\$ 169,600	215,200	274,450
Total	\$ 339,500	346,100	393,050
Common Shares Outstanding (1)	\$ 2,686,805	2,679,704	2,677,541
Per Share Statistics: (1)			
Earnings (loss)	\$ (.22)	\$.23	\$.14
Book Value	\$ 3.89	\$ 4.11	\$ 3.88
Stockholders' Equity	\$10,446,690	\$11,007,753	\$10,380,026

10 YEAR COMPARISON

1965	1964	1963	1962	1961	1960	1959
\$18,394,329	\$29,387,053	\$27,705,772	\$20,898,611	\$11,598,068	\$ 6,600,137	\$ 5,028,453
\$ 54,000	\$ 2,206,000	\$ 2,122,994	\$ 1,320,000	\$ 1,000,500	\$ 499,000	\$ 368,700
\$ 37,193	\$ 2,243,904	\$ 1,907,680	\$ 1,176,784	\$ 903,340	\$ 463,507	\$ 336,867
0.20%	7.64%	6.89%	5.63%	7.79%	7.02%	6.70%
\$12,981,993	\$12,034,290	\$11,887,905	\$ 9,223,214	\$ 5,216,707	\$ 3,411,503	\$ 2,452,459
\$ 5,119,686	\$ 3,641,030	\$ 4,858,822	\$ 4,841,954	\$ 1,700,069	\$ 1,803,561	\$ 935,558
2.5 to 1	3.3 to 1	2.4 to 1	1.9 to 1	3.1 to 1	1.9 to 1	2.6 to 1
\$ 7,862,307	\$ 8,393,260	\$ 7,029,083	\$ 4,381,260	\$ 3,516,638	\$ 1,607,942	\$ 1,516,901
\$ 1,110,638	\$ 913,785	\$ 861,270	\$ 153,058	\$ 135,904	\$ 150,495	\$ 124,667
\$ 3,260,222	\$ 2,876,240	\$ 2,435,280	\$ 1,976,768	\$ 1,111,160	\$ 894,868	\$ 461,014
\$ 632,644	\$ 789,741	\$ 653,840	\$ 975,431	\$ 296,520	\$ 498,672	\$ 64,735
\$ 244,057	\$ 197,904	\$ 155,450	\$ 106,823	\$ 73,354	\$ 59,747	\$ 38,439
138,600	133,600	113,600	65,850	40,850	40,850	40,850
147,400	131,400	127,400	120,400	107,000	43,000	4,000
286,000	265,000	241,000	186,250	147,850	83,850	44,850
2,677,430	2,677,430	2,668,882	2,659,523	2,659,523	2,439,072	2,424,962
\$.01	\$.84	\$.72	\$.44	\$.34	\$.19	\$.14
\$ 3.74	\$ 3.73	\$ 2.88	\$ 2.12	\$ 1.69	\$.95	\$.74
\$10,011,866	\$ 9,984,345	\$ 7,676,159	\$ 5,645,344	\$ 4,498,217	\$ 2,321,709	\$ 1,789,231

(1) Common shares outstanding and per share book value statistics are as at the close of each fiscal year. Per share earnings statistics are computed on the basis of the average number of common shares outstanding during each period. Both are adjusted for stock splits in 1959, 1961 and 1962 and 2% stock dividends in 1964, 1965, 1966, 1967, 1968,

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**The TECHNICAL
MATERIEL
CORPORATION**
AND SUBSIDIARIES

MAIN OFFICES

Fenimore Road
Mamaroneck, New York
10543

TMC Systems (Arizona), Inc.
Tempe, Arizona 85281
The TMC Systems and Power Corp.
Springfield, Virginia 22151
TMC (Canada), Ltd.
Ottawa, Ontario, Canada
TMC Systems AG
Luzern, Switzerland
TMC Systems (W.H.), Inc.
Mamaroneck, N. Y. 10543
Telecom Realty Corp.
Mamaroneck, N. Y. 10543

